Economic Horizons, May - August 2015, Volume 17, Number 2, 79 - 94
UDC: 33 eISSN 2217-9232

Original scientific paper
UDC:330.564; 316.334.2
doi: 10.5937/ekonhor1502081L

DETERMINANTS OF ECONOMIC (IN)EQUALITY AND IMPLICATIONS FOR SUSTAINABLE ECONOMIC DEVELOPMENT

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The research, focusing on the specific key aspects of economic inequality as well as economic equality, by analyzing numerous theoretical, methodological and empirical views concerning the mentioned socio-economic phenomena, aims to identify the following related and relevant aspects that affect the efficiency of the functioning of a modern economy: a) economic inequality that has a stimulating effect on the creative, productive and innovative use of all production factors positively affects the functioning of the economy and is socially justifiable; b) a high level of economic inequality, which shows a tendency to further increase, has a negative effect on the economic system indicators as well as the stability of the society and the political environment, therefore resulting in a weaker economic performance and a lower economic growth rate; c) economic equality (certainly not egalitarianism), by contributing to greater social and political stability, which in turn reflects positively on economic stability and efficiency, is the basis for a greater success of the modern economy and dynamic economic growth rates. The main result of this study is assessing the basic factors of high and rising economic inequality and its implications for the functioning of modern economies, and accordingly, pointing to the need to implement economic policies that would lower economic inequality and mitigate its adverse consequences for the economy and the society.

Keywords: economic inequality, economic equality, sustainable economic development, income, standard of living, poverty

JEL Classification: D31, D63, I38, P36

INTRODUCTION

Among the greatest challenges of the modern economy are the problems related to the long-term trends of rising income and wealth distribution inequalities, which are also the key variables in inequality and unemployment research. Drawing attention to the connection between economic inequality and unemployment is based on the fact that these factors represent the factors crucial in lowering the level of the living standard as well as a poverty increase, i.e. inequality *par excellence*. After a long period of turning a blind eye to this problem, economic inequality received greater attention in the 1990s, since the increase in income inequality had become apparent in the 1980s. In other words, the revival of

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the interest in the issues of economic inequality is the result of significantly diminishing income distribution implications in the modern economy, which occurred during the last two decades of the 20th century and at the beginning of the 21st century. A growing interest in these relevant issues concerning both the economy and the society is certainly influenced by the impact of the global economic crisis on the functioning of modern economies and overall social life. Namely, the research into the causes of the global crisis has shown that increasing inequality, among other factors, has added to its emergence. Consequently, economic and social reality imposed the need to intensify theoretical and empirical research into the problems of inequality and its implications for the functioning of the modern economy, as well as the economic growth and development.

In addition to the mentioned socio-economic circumstances, the publishing of Thomas Piketty's book *Capital in the Twenty-First Century* (2015) has brought economic inequality, as the central issue of the modern economy, to the attention of the scholarly, professional and general public. By examining the relevant issues of inequality, which threatens the vision of the capitalist system by its growing tendency, the author identifies the instruments and the measures that should be used by the creators of economic policies in order to tackle this problem. The key findings and conclusions of T. Piketty's book, which some of the most famous contemporary economists consider as one of the most influential books in the field of economics published in recent decades, will be discussed in a separate section of the paper.

The consequences of economic inequality have not only been the topic of numerous studies, but also the subject of the official reports produced by the United Nations (UN), the World Bank (WB) and the Organization for Economic Co-operation and Development (OECD). Thus, the Human Development Report (United Nations, 2014) emphasizes that human rights are violated not only by repression, terrorism and other political and military interests, but also by unfair economic structures that create huge inequalities. The negative effect of inequality reflects both on the economic performance and the stability of the society and the political environment. It is precisely due to its impact on economic, social and political conditions that the analysis of the key issues of inequality is of particular importance for the creators of economic and other policies. These are the reasons why it is essential that the issue of inequality should be given the central role in the economic analysis as well as in this paper.

In accordance with the defined subject, the main aim of this paper is a critical review of the relevant theoretical and empirical aspects of (in)equality as an important factor of the stability and efficiency of an economic system. In other words, the aim is to point out that it is not economic inequality which boosts workforce productivity, savings and investments that limits the performance of the functioning of an economic system, but rather rising inequality that is not socially acceptable.

In accordance with the defined subject and the goal of the research, the initial hypothesis is:

H: If greater economic equality contributes to the stability of a society and its homogenization, then such economic equality will be in the function of dynamic economic growth and sustainable development and as such will not be in sharp conflict with economic efficiency.

For the purpose of the analysis of the key aspects of (in)equality as well as their implications for the performance level of an economic system in terms of achieving dynamic economic growth rates and sustainable development, the method of the qualitative economic analysis will be principally used. By observing the comprehensive and complex phenomenon - namely the defined research subject, this methodological toolkit enables a more thorough understanding of the causal relationships between the key aspects, i.e. inequalities in income and wealth distribution and efforts to achieve greater equality in a society as well as their implications for the economic activity.

The paper is organized into six sections. Following the Introduction, the second section of the paper examines the relevant concepts both in economic thought and practice, including the position of some of the most influential international institutions (UN, WB, OECD) on the current problems of growing inequality. A short review of the key positions of Thomas Piketty's published in his book titled *Capital in the Twenty-First Century* is given in a separate (third) section. The fourth section identifies the interconnectedness and the interdependence between rising inequality in modern economies and the dominant neoliberal concept, based on the theoretical and methodological analysis and a critical review of the phenomenon of (in)equality in the economy and the society. The relevant aspects of the implications of economic inequality and economic equality on the successful performance and functioning of the economy will be analyzed in the fifth section of the paper. In the last section of the paper, i.e. the Conclusion, the author presents his position on the set hypothesis, points out the main results and contributions as well as the limitations of the study and considers some standing issues important for future research.

POSITIONS ON ECONOMIC (IN)EQUALITY

Although J. M. Keynes wrote that „The outstanding faults of the economic society in which we live are its failure to provide for full employment and its arbitrary and inequitable distribution of wealth and incomes" (taken from Krugman, 2012), in the decades that followed and saw the functioning of the economy in accordance with the basic principles formulated by this author, due to the dynamic economic growth rates, a state of relative economic equality and full employment was reached. It was one of the reasons for waning interest in the theoretical and empirical research into these important economic and social problems. Namely, by the end of the 1960s, the main attention was focused on economic growth as an essential condition for improving the welfare of people, while the issues concerning the distribution of growth benefits to individuals and social groups were pushed into the background (Jovanović Gavrilović, 2003). The general opinion was that as long as economic growth remained at the center of attention, there was no need to worry about inequality. However, after a long period of neglect, a revival of the theoretical and empirical study of the key aspects of inequality relating to the distribution of income and wealth and its implications for the achievement of economic and social goals emerged at the beginning of the last decade of the 20th century.

The research points to the interdependence between inequality and economic growth and development (Jovanović Gavrilović, 2003; Knowles, 2003; Picketty, 2015), while certain studies point out that the method of income distribution is a prerequisite for the sustainability of growth and development (Cornia & Martorano, 2012; Nikiforos, 2014). Even the Chair of the Board of Governors of the Federal Reserve System (Fed) pointed to the problem of income inequality as an important limitation to the future economic growth of the United States of America (USA) (according to Nikiforos, 2014), which is in sharp contrast to the recent past, when it was unthinkable that representatives of relevant institutions of this country, like politicians, Fed's Chair of the Board of Governors as well as a large number of economists could even bring up the subject of the unequal distribution of income.

Economic inequalities are caused by various factors. F. Gay and P. Scott (2013) argue that the distribution of income, hence income inequality as well, are affected by technology's impact on the marginal products of different factors of production as well as institutions – given the fact that their different aspects of activities influence the negotiating potential of economic actors. In fact, the establishing of a regulatory framework primarily affects the industrial structure and the market power of large companies; however, it also influences the parameters used to determine the salaries of different categories of employees. Since the institutional framework is the result of complex social and political processes, it is of crucial importance that the social structures which are the most influential ones should be identified. Therefore, the distribution of income and wealth is determined by political choices and institutional changes, as well as technological changes and their effects on market outcomes. Although some studies focus on the political and the institutional aspects of inequality, while others choose the technological and the market aspects, these two factors should not be regarded as mutually exclusive as they interact. When it comes to the growth of inequality, which followed the implementation of reforms in developed countries in the 1980s, it is pointed out that this inequality is of an institutional character due to the fact that the implemented tax reforms have reduced the income tax rates (taxpayers in the highest-income groups were given the largest tax reduction) and weakened the influence of trade unions and other institutions concerning negotiating the labor market's terms and conditions.

By implementing the processes of deregulation and market liberalization in the 1980s, the principle of fairness in terms of the payment of wages was eliminated. At the same time, the dominant position of managers came to the fore, thus allowing them to maximize their income thanks to their negotiating position. For example, in the USA, in the period 1980-2010, those with low wages (of the bottom 90%) saw a growth of only around 15% in their wages, whereas those among the top 1% saw an increase of almost 150% and the top 0.1% saw a growth of more than 300% (Stiglitz, 2012). Meanwhile, changes in the wealth picture were even more drastic. Strained relations in the distribution of income and wealth cause large and growing inequality as one of the most negative sides of the market economy. In this way, movements on the market and politics become an indicator of the real situation in terms of the economic and political power, which J. E. Stiglitz (2010) sees as a poor signpost of how young people should shape their society. In fact, this author points out that, in conditions when the yields of speculative activities are taxed at much lower rates compared to the income earned by labor, young people are strongly encouraged to opt for speculative activities, given the fact that these are highly rated by the society.

While considering the causes of the global economic crisis, J. E. Stiglitz (2012) points out that modern economics, among other things, has expressed the following key weaknesses:

- markets are not working the way they are supposed to, for they are obviously neither efficient nor stable;
- the political system has not corrected market failures; and
- economic and political systems are fundamentally unfair.

Stiglitz believes that economic inequality is the cause and the effect of the failure of the political system, which adds to the instability of the economic system. Economic reality has confirmed that markets do not work the way their apologists claim they do. Markets are supposed to be stable; however, the global financial crisis and the crisis of the real sector have showed that markets are very unstable and as such bring about devastating economic, social, political and even personal consequences. After all, according to the most basic law of economics, if an economy is to be stable and efficient, it is essential that demand should equal supply. However, in an environment where enormous resources are underutilized and numerous workers and production capacities are idle, the market cannot be said to be efficient in solving economic problems. The inability of the market to create jobs for so many unemployed persons represents its greatest failure, which is at the same time a source of inefficiency and one of the major causes of inequality.

The common premise is that the market has its role in shaping a degree of inequality. However, it is necessary that we should point out that market forces are shaped by institutions and government policies. Therefore, a substantial part of inequality is the result of what the government does or does not do, i.e. the economic, social and political division of power. The government has the power to manage money and various other resources and direct them towards certain structures of the society. Also, with its respective policies, such as progressive taxation, the government is able to limit inequality levels. However, programs handing over a country's resources to certain individuals or interest groups connected with the power structures only further increase the levels of inequality. Such a phenomenon is a reality where political structures give excessive power to those at the top of the economic pyramid, who in turn use this power not only to limit the scope of redistribution, but also to shape the rules of the game in their favor. These are the rent-seeking activities, aimed at sucking the money from the rest of the society, which is one of the main innovations of the financial and other economic structures that have an influence on those holding political power. Consequently, the role of the rent-seeking behavior in establishing high economic inequality is critical.

One of the most important factors of the functioning of a successful economy is the institutional environment. In this respect, it is a common position in economic science that institutions protecting the property rights of manufacturers are crucial for a successful long-term economic performance, and thus dynamic economic growth and sustainable development. However, the fact that an economy is efficient and achieves high rates of economic growth does not necessarily imply that the distribution of income is carried out in a fair manner. Quite the opposite, inequality in the distribution of income and wealth leads to a social polarization resulting in a smaller social stratum with enormous wealth and a vast majority of people with a negligible part of wealth at their disposal. If political power is concentrated in the hands of the economic elite, an oligarchic society is created; hence, a high level of property rights protection will not always be beneficial for successful economic growth and development. Not only does an oligarchic society protect the property rights of manufacturers and prevent high levels of distortive taxation, but also enables the ruling oligarchic structure to establish various barriers to the free entry of new economic agents, thereby protecting its dominant market position by articulating policies that are in the interest of the ruling structure (Acemoglu, 2008). Therefore, social groups becoming much richer in a particular political regime will use their position (by financing election campaigns and other political activities) to influence political processes in order to preserve the existing regime and hence their privileged position. In this way, by retaining inefficient oligarchic institutions enabling the elite to benefit at the expense of the rest of the society, a system that is neither efficient nor fair is preserved, which has a long-term negative impact on economic growth and development. Since a political system is sensitive to moneyed interests, rising economic inequality leads to a growing imbalance of political power, thus creating a vicious nexus between politics and economics (Stiglitz, 2012).

Growing inequality in countries stands for one of the outcomes of the implementation of the transition process lasting for two decades. Despite this, there are few empirical studies dealing with the problems of inequality and its causes and effects in these countries. At the same time, there are numerous scientific papers examining the relevant aspects of economies in transition, which note that growing inequality is one of the major limiting factors for the success of the transition and that it also has a negative effect on economic growth.

Rising inequality has significantly been influenced by some of the basic transition processes: trade and economy liberalization, the privatization of the state- and social ownership and the deregulation of the economy and society (Bićanić and Franičević, 2005). As a prerequisite for the establishment of economic and political freedoms, the liberalization of economic flows significantly affected changes in income flows, which resulted in increased economic inequality. Furthermore, the implementation of privatization in the conditions of the underdeveloped market and a lack of developed and consistent institutions as a condition of the implementation of more complete and more efficient regulations allowed the reallocation of resources and property, thus allowing the appropriation of vast extra profits and the rent-seeking behavior of new owners. Simultaneously, the liquidation of a large number of industrial companies and domestic banks resulted in the deindustrialization of transition countries and consequently reduced the number of employees. Due to the failure of the government to fulfill its obligations towards laid-off workers as well as active workforce (pension and social insurance contributions), there has been a drastic decline in the living standards for the majority of people. In fact, the privatization and the deindustrialization that set off rising inequality in countries in transition also represent the two sides of the same coin (Milanović & Ersado, 2010).

Deregulation brought about a reduction in social welfare contributions and entitlements, limited access to welfare programs and introduced market regulations to the governing of citizens' rights regarding their entitlement to social services. All these changes have had a negative effect on socio-economic equality and contributed to integrating inequality into the social being itself. The mentioned transition processes polarized society into a small group of transitional winners who gained great wealth in a short period of time and a large number of transitional losers who were brought to the brink of poverty.

The World Bank report on the state of the world economy entitled Equity and Development (The World Bank, 2006), indicates that the modern world is dominated by immense inequality in opportunity, both within and across countries. This is illustrated on the example of the strikingly uneven distribution of the basic opportunity for life - whereas less than 0.5% of the children born in Sweden die before their first birthday, 15% of the children born in Mozambique die before turning 1. At the same time, economic and political inequalities, as an important factor of initial conditions that perpetuate inequality in society, are favorable for the formation of such political and economic institutions and establishments that favor the social structure which has the greatest influence. The functioning of the economic system in the conditions of unfair institutions produces high economic costs. Namely, when the institutional structure protects personal and property rights of only the wealthiest layers of society, and budgetary funds are transferred in line with the interests of influential political figures, public services are insufficiently implemented, and the potentials of the middle and the lower classes cannot be achieved. This type of society cannot be efficient and is unable to effectively utilize innovation and investment.

In its report titled In It Together: *Why Inequality Less Benefits All* (OECD, 2015), the Organization for Economic Co-operation and Development (OECD) affirms that economic inequality and the gap between the rich and the poor are constantly rising. In many countries in recent decades, as much as 40% of their populations at the lower end of distribution have benefited little from economic growth, with real wages falling in real terms in some cases, too. As a result, when people are incapacitated to realize their potentials due to low income and when there is no growth in job opportunities and production capacities (which has negative implications for the economy as a whole) it is essential that changes should be implemented in order to lessen the current level of economic inequality. Despite this reality, proponents of the current situation claim that the social and political costs of such changes are high. The mentioned Report further argues that growing inequalities with their consequences are a sufficient argument for the implementation of policies for inequality reduction. Namely, in addition to the adverse effect on social cohesion, high and growing economic inequality causes serious economic problems and has a negative effect on long-term growth, thus threatening the sustainability of the economy.

ECONOMIC (IN)EQUALITY AS SEEN BY THOMAS PIKETTY

The publishing of Thomas Piketty's book *Capital in the Twenty-First Century* once again brought at the center of the attention of the scholarly, professional and general public the problems related to income and wealth distribution and the growth of inequality. Based on the study of the dynamics of the distribution of labor and capital income in the twenty most developed countries over three centuries, Piketty concludes that the history of inequality in the distribution of income and wealth is closely related to the economic, social and political stakeholders and their positions on what seems fair and what seems unfair, as well as their relative power and mutual interests and choices. The dynamics of wealth distribution reveals powerful mechanisms pushing alternately towards convergence and divergence; therefore there is no natural or spontaneous process to prevent destabilizing, inegalitarian tendencies from prevailing permanently (Piketi, 2015). The value of this book lies in the author's approach to this comprehensive, complex and, above all, important issues of life, and his understanding of economics as an interdisciplinary scientific discipline that, in addition to mathematics and statistics, also includes history, sociology, anthropology and political philosophy as a more reliable way to „answer the far more complex questions posed by the world we live in" (Piketi, 2015, 45).

The book has received much favorable and unfavorable criticism concerning its conclusions and employed methodology; here are some of the reviews: it brings about a revolution in the understanding of long-term trends in inequality, primarily, the role of very rich people who have been ignored in previous debates; This is a book that will change both the way we think about society and the way we do economics (Krugman, 2014); The book addresses the pressing issue of the day in a manner that is learned, literary, speculative, provocative and fascinating. T. Piketty ultimately leads the reader to a vision of what the future may hold and advice about what policymakers should do about it (Mankiw, 2014); *Capital in the Twenty-First Century* is a weighty book, replete with good information on the flows of income, transfers of wealth, and the distribution of financial resources in some of the world's wealthiest countries (Galbraith, 2014); T. Piketty is after general laws that will demystify our modern economy and elucidate the inherent problems of the system—and point to solutions. But the quest for general laws of capitalism is misguided because it ignores the key forces shaping how an economy functions (Acemoglu & Robinson, 2015); By associating the theory of economic growth and personal and functional income distribution, Picketty's book offers a unified theory of the capitalist economy (Milanović, 2015).

In his study of inequality and a historical overview of the dynamics of wealth distribution, the author examines income, wealth distribution and income distribution inequality in the light of wealth and income interconnectedness. Accordingly, the process of the accumulation and concentration of wealth is seen as a significant force of divergence, which, in the conditions where return on equity is high and economic growth poor, poses the main threat to the long-term dynamics of wealth distribution. It is emphasized that in circumstances where, over a long period of time, the rate of return on capital significantly exceeds the rate of economic growth, there is a risk of divergence in the distribution of wealth, which Piketty identifies as fundamental inequality. If a growing trend of return on capital (between 4% and 5%) significantly exceeds the growth rate for a long period of time, the share of capital income in the total income will grow faster, which is why there will be a greater concentration of wealth in the hands of a small number of individuals, which T. Piketty illustrates on the example of increasing the share of the first top 10%, only to be followed by the top 1%, and eventually 0.1% of the population in the total wealth. At the same time, this fundamental inequality is not affiliated with any of market imperfections. On the contrary, the more perfect the capital market in economic terms, the more likely that return on capital will significantly exceed the economic growth rate; therefore, inequality will continuously rise and thus become a constraint to economic growth.

This concept is a sore point for the critics of T. Picketty's work. Namely, it is indicated that the rate of return on private capital that exceeds the economy's growth rate is an objective requirement of the market system, because it is an essential component of capital owners' incentive to accumulate their wealth and invest it (Mankiw, 2014). If this were not the case, capital would not be used as a production factor and this would hinder the accumulation of capital and thus investment as a condition of economic growth. Mainstream economists emphasize that inequality is a source of stimuli for the effort, creativity and resourcefulness, which contributes to economic performance for the benefit of all members of a society. Accordingly, it is also pointed out that higher taxes on the rich and a greater aid to the poor are likely to impair economic growth (Wade, 2014).

Such criticism ignites two significant points that Piketty persistently emphasizes.

- The book does not say that any greater rate of return on capital will cause growing inequality and hinder economic growth; actually, he points out that this fundamental inequality emerges in circumstances where „the rate of return on capital significantly exceeds the growth rate of the economy" (Piketi, 2015, 39-40). Hence, some specific questions can be formulated: What is the problem if the rate of return on capital is relatively equal to the rate of economic growth? Why a capital owner would not be motivated to invest in such conditions? Is it not true that economic growth makes the result of the productive engagement of capital as a factor of production? According to the same logic, guided by one's interests to maximize one's return on equity, such an owner will place his/her capital in the most profitable economic activities, which could result in a better economic performance and thus higher rates of economic growth. In accordance with the principles of classical economics, inequality would be based on mutual benefit and therefore justified.

- Advocating a greater level of economic equality does not imply efforts to establish an egalitarian system. It is clear that in conditions where the total production is spent on wages and where no profit remains, it is unrealistic to expect that owners of capital would be motivated to invest in new projects.

Bearing in mind the above-mentioned positions on the socially justifiable existence of economic inequality, one cannot see the basis for the misunderstanding of and contradicting to the positions of Thomas Piketty's, except for the need to frantically defend the neo-liberal concept of the modern economy often without any sufficient valid arguments.

In order to understand economic inequality, it is important that the relationship between capital and income should be examined. This relationship is in a long-term correlation with a country's savings rate and its national income growth rate, which Piketty considers as the second fundamental law of capitalism. Based on an empirical research, the author shows that between 1970 and 2010, there was a sharp increase in private wealth in the most developed countries, especially in Europe and Japan, which is explained by lower economic growth and higher savings. A dynamic increase in private capital in the most developed countries coincides with the implementation of the privatization process of the public sector and the deregulation of the economy. At the same time, the state, in circumstances of high budget deficits, issues bonds to balance the budget. Bonds are purchased by owners of private capital, who increase their private wealth in this way. However, national wealth does not increase because it is only redistributed. An enormous enlargement of private wealth establishes patrimonial capitalism, which is a novelty of the 20th century.

At the same time, the transfer of assets from the public sector to the private one was not only limited to the most developed countries. According to its scope, the largest privatization of state- and socially-owned property, not only in the modern period but in the history of capital as well, takes place in transition countries (Piketi, 2015, 204). These processes have not resulted in changing the level of national capital; they have rather reshuffled public and private capital, which has led to enormous economic disparities in these countries.

Income, either labor- or capital-based, is a significant source of inequality. On the one hand, the inequality of income distribution affects the way labor and capital are distributed, whereas, on the other, they influence the method of the income valuation based on labor and capital. Therefore, the more uneven distribution between labor and capital is, the greater overall inequality is. Labor income inequality is usually moderate, relatively reasonable, whereas capital income inequality is, as a rule, extremely high. These differences are clearly illustrated by the share of the top 10% (and among them 1% and 0.5%) of the population in wealth and income distribution as well as the share of the bottom 50% and the middle 40% of the population. The top 10% share of wealth is 60%, and within this structure, the top 1% own 25%, while 35% of the total wealth is in the hands of the remaining 9%. The wealth of the top 1% is estimated to be 25 times greater than the average wealth of the rest of society, and the wealth of the other 9% is 4 times as high as the average (Piketi, 2015, 280-281). The remaining wealth is distributed amongst the poorest 50%, accounting for 5% of the total wealth, and 40% of the middle class owning 35% of the total wealth. Piketty does not deal with the figures as the most important issues of the inequality study. He sees economic, social and political forces as decisive factors determining the level of inequality in different societies.

The 1980s saw great changes in the economy's institutional and regulatory frameworks, which significantly changed the position of managers whose bargaining position vastly improved. As a result of these changes, „super-managers" received extremely high salaries, which were even greater than those of capital owners'. The basis for the enormous growth of high salaries is the lowering of progressive taxation of the highest incomes and the substantial negotiating position of managers. It should be noted that it is difficult to find a case where managers' enormously high salaries are matched by the exceptionally successful performance of the company or the bank they manage. The global financial crisis has shown that managers in the financial sector received enormous bonuses, whereas those who were victims of the crisis (brought upon them by the same bankers) lost their jobs, houses and apartments.

A possible solution to the problem of „the endless spiral of soaring inequality" is seen by T. Piketty to be in a global and progressive tax on capital, which would result in a more complete coordination of tax policies and their control. However, he emphasizes that this concept is complex to implement and notes that a „truly global tax on capital is no doubt a utopian ideal". In terms of the income tax, a progressive taxation system should be implemented, since progressive taxation is a way to limit inequality and simultaneously the basis for the functioning of the welfare state. It represents a compromise between social justice and individual freedom, says T. Piketty. Concerning the determining of tax rates, he indicates that there are no specific formulas or econometric calculations that can establish the exact amounts; tax rates are results of collective thinking and democratic experimentation. At the same time, decision making is the reason why it is difficult to implement progressive taxation since political decision makers are deeply influenced by the top 1% who are to pay the highest taxes in this case.

Redistribution that would reduce inequality implies not only a transfer of wealth from the rich to the poor, but, primarily, the funding of public services, especially education, healthcare and pensions funds, thus ensuring equal access for all people. In this way, a system where equality would be a norm could be established, while inequality would only be acceptable if based on a mutual benefit. Accordingly, the author promotes a better organization, the modernization and consolidation of the „social state", rather than its disintegration. In this regard, it is necessary that the organization and the functioning of the public sector which generates 50% of the national income should be improved. A special emphasis is placed on the greater equality of access to education, particularly higher education.

For his views expressed in the book *Capital in the Twenty-First Century*, T. Piketty says that they are uncertain by nature; therefore, they may be called into question and discussed - which is the ultimate goal of every research in social sciences. However, there are some undisputable facts: T. Piketty brought the issue of economic inequality at the center of the attention of the serious scientific considerations and the employed scientific, theoretical and methodological instruments enabling him to connect economic science with other social sciences. Such contributions and values of this book greatly outweigh its shortcomings.

THE SYSTEMIC CHARATER OF ECONOMIC (IN)EQUALITY

Economic research has shown that the dynamics of economic inequality has varied throughout history. It is also implied (Piketi, 2015) that economic inequality was quite high before World War I; however, by the 1970s, due to the wars and the Great Depression, as well as the introduction of the Keynesian system in the post-war decades, the inequalities in the distribution of income and wealth were significantly reduced. The 1980s introduced reforms involving the privatization of the public sector and the deregulation of the economy backed up by Reagan's and Thatcher's economic policies and the revival of neoliberalism, which all led to the re-escalation of inequality. The above-mentioned dynamics of alternating greater inequality and greater equality in different economic system configurations points to their systemic character.

The implementation of the neoliberal concept of the economic policy and the expectations that deregulation, liberalization and privatization would be a solution to the economic problems influenced the USA government to lower the maximum tax rates on income (from 75% to 33%), capital and assets, and to increase consumption taxes, which brought down the brunt of the tax burden from capital to citizens. A profit emerged as the dominant motive in education, healthcare, culture and other social and public activities.

The effects of the functioning of an economy in the conditions of the implemented active role of the state and the dominating neoliberal concept are demonstrated by the results achieved by the global economy in the second half of the 20th century and the first decade of the 21st century. R. Skidelsky (2011) compares the economic results achieved by those economies characterized by the dominant influence of Keynesian and liberal system, which the author defines as the Washington Consensus. According to the data included in the analysis, the Keynesian system concept was dominant in the period 1951-1980, while the second concept prevailed in the period 1980-2009. The empirical data in terms of the global economy show two indicative results:

- the average growth rate of the global economy in the first period was 4.8%, and in the second one 3.2% (in fact, in the period 1951-1973, the world did not see a single year with less than a 3% growth);
- according to the IMF criteria, the first period saw one recession, whereas there were five recessions that occurred in the second period.

Also, there is a striking contrast between the two periods in terms of unemployment, which is significantly higher in the second period. Inflation, as another important indicator of macroeconomic imbalances, does not constitute an argument in favor of neoliberalism. Namely, there is a common understanding that the Keynesian period was marked by high inflation, whereas the second period, due to the dominating monetarist doctrine, successfully solved the problem of inflation. However, contrary to this position, in the period 1950-1973, average inflation was 3.9% and in the period from 1980-2008, it was 3.2%. If the price of a slightly higher inflation in the first period was paid by higher employment and faster economic growth, then such a cost was surely justified. When it comes to inequality in the distribution of income, it was stable in the first period; however, it rose sharply in the second period, i.e. inequality has constantly been rising since 1980. The conclusion is clear – in the period from 1950-1980, the economy is characterized by full employment, the steady growth of real wages, relative stability and high growth rates, as well as the lowering of income and wealth inequality. Also, during the period when the state had the regulatory role, greater economic stability was achieved (which is an essential factor of a more dynamic economic growth). After this period, all the mentioned indicators have significantly worsened. It turned out that the neoliberal concept has not been successful in any economy, not even in relatively stable conditions; therefore, such a concept has never been able to produce the benefits attributed to it. Furthermore, the liberal economy does not have an adequate mechanism for solving major economic imbalances, as evidenced by the global economic crisis.

Unable to explain the absence of positive results regarding the expected economic growth, employment growth and a better standard of living, creators of neoliberal reforms brought into spotlight the creation of an enabling institutional environment characterized by the economic freedom, liberalization and price stability supposed to provide a growth recovery in some future period. That future has not yet arrived in many countries.

By imposing neoliberalism as the only one option of the economic organization of a society, the state is required, primarily, to secure the protection of property rights, the enforcement of contracts, the free movement of goods and capital, as well as to support the philosophy of individualism. The social, economic and welfare aspects are approached from an individualistic point of view, instead of being approached from a synergetic context inclusive of complementary relationships and actions and being also the only one possible approach. Neoliberalism is accepted as a dogma and as a standard trend in economic thought, thus narrowing the scope of the critical reflection on real economic problems of a modern society. Adverse effects of the domination of the neoliberal concept in the modern economy can be considered from two important viewpoints: the theoretical one (the theoretical and the methodological concepts) and the practical one (the socio-economic concept).

In theoretical and methodological terms, the consequences of the dominant influence of the neoliberal concept are reflected in that they block any other approach that would bring into question the mainstream doctrine. The opposing standpoints are rejected in the crudest possible way, often without any argument or simply by insisting on the necessity of the free market domination as the only prerequisite for economic growth. Allow us to just mention J. E. Stiglitz's (2010) warning that the greed and insatiability of uncontrolled capital can make things worse, because unregulated financial markets allow individuals to come to completely disproportionate income from capital; however, advocates of neoliberalism believe that greed, manifested by banks in their striving for continuous accrual of their profits, is justified because it represents a logical and stimulating market mechanism. The reality which is ignored is that this stimulating market mechanism indeed allows the acquisition of high profits and earnings; however, when it fails, losses are covered by the state. In this way, profits are privatized and losses are socialized, which is the manifestation of drastic economic inequality.

The key problem of the neoliberal concept of the economy is the equating of the market economy with the liberal self-regulating market mechanism representing the only model of the modern economy. For example, if one points to the need for the implementation of active state regulation in economies in transition, such a position is *a priori* rejected on the grounds that it is the revival of the socialist paradigm and that the presence of the state threatens the economic freedom. Hence, two important facts are ignored. First, when the liberal market causes major imbalances, the only instance to which such a market relies upon in order to overcome the crisis is the state. Second, the economic reality of modern economies shows the existence of a large number of the market economy's models once intended to solve economic and social issues; however, they utterly failed to do so and the only bailout in this case was a state intervention, which was not only necessary, but also justified.

In practical terms, the dominant neoliberal concept negatively affects the socio-economic trends due to its inability to grasp that the market economy as a whole actually represents a production system. Neoliberalism focuses on the role of the market as the coordinator of something that has already been produced, hence leaving out the role of entrepreneurs, the state and its institutions, as well as the technological processes (Reinert, 2006). The main factors of economic growth, such as innovation, knowledge and new technologies are mixed up with free trade. The solutions that are considered to a must since they either have no alternative or are considered as the only possible remedy, or are said to be accepted by the world but rejected by the society etc., are constantly imposed. Every economic policy or policy measure which is said to be without an alternative is wrong in every respect – methodological, social, economic and historical. On the contrary, there is always an alternative and there are always different ways to organize a society. The belief that there is only one way is a false one. Each country needs to find its own solutions and establish its own institutions. The economic system and the economic policy of a country must be created in line with the existing circumstances in the country; after all, the most developed economies have been practicing this for centuries. The recent examples of Iceland, Ireland and Greece should be considered in this respect.

The application of the neoliberal concept which enables unrestricted access to foreign capital provided maximum privileges for foreign corporations regarding taxation, subsidies and the liberalization of the labor law. The basic economic requirements, the fulfillment of which would lead to an increase in welfare for all, are: an increase in the level of the efficiency and security and flexibility of operations. The main criterion of efficiency is to maximize profits, while the flexibility of operations primarily involves the free labor market which brings about the abatement of workers' rights, growing job insecurity and the diminution of social rights. The economic role of the state, which is generally considered to be unnecessary and harmful, has been reduced to the classical functions: establishing a safe and favorable business environment (guaranteeing the inviolability of property rights and the enforcement of contracts), and creating macroeconomic conditions for the free exercise of private activities. A call for minimizing the role of the state in the economy, i.e. for the implementation of deregulation and privatization, is justified by the need to make more room for the development of private entrepreneurship and innovation as a prerequisite for achieving the fastest possible economic growth. At the same time, the economic reality is ignored - there is not a single economy to have confirmed the positive correlation between the rate of the economic growth of the country and the full liberalization of the economic system.

A key component in the implementation of reforms in transitional countries intended to lower the state intervention and create a free market is the privatization of the state ownership. However, this process has created a system where private monopolies simply supersede state monopolies. The implementation of privatization without a clear strategy for the protection and preservation of the economic and social interests of a country, together with the absence of appropriate controls, has led to pronounced inequality in the distribution of capital assets, which is the basis for high income distribution inequality. Instead of achieving economic efficiency through privatization, which is the most important feature of private property, there was a complete collapse of the economic activity and the enormous growth of unemployment. A logical consequence of such an unfavorable economic environment is deterioration in relations concerning the distribution of income and wealth. To sum up, an economic system not allowing either economic efficiency or social justice is thus established.

The neoliberal economic system requires neoliberal economic institutions expected to create favorable conditions for free-market competition and guarantee the security of the factors of production as an essential factor for the successful functioning of the economy and the achievement of economic and social prosperity. However, the neoliberal concept solely focuses on the security of property rights and contract enforcement as the dominant conditions determining an economic success and as prerequisites for a better organization and the successful functioning of the economy enabling the achievement of satisfactory and sustainable rates of economic growth and development.

Certainly, the protection of property rights and the enforcement of contracts are a necessary but insufficient condition to achieve an economic success. The fact is that the economic activity is the result of a specific blend of capital and labor because capital in itself does not create a new value. Nevertheless, the position on the much-needed security of workers is rarely found in the research that examines the opinions of the creators of the economic system and the economic policy, as well as those of employers'. It seems as if that aspect of security is not important for supporting economic growth and development. On the contrary, the emphasis is on the flexibility (liberalization) of the labor market, which is particularly detrimental in terms of high unemployment, where flexibility leads to the pauperization of workers.

The constant calls for a reform of the labor market meant to allow the full flexibility of workforce are followed by the lowering of unemployment benefits and the limiting of the employment protection legislation. The emphasis is on the individual responsibility rather than social rights. The reasons standing behind such reforms are to deliver more benefits to entrepreneurs in order to increase employment. Neoliberals' attitude is that unemployment benefits are unnecessary and harmful because, in their opinion, the problem is not in the shortage of job opportunities. It is considered that there is always a job for everyone who wants to work; therefore, the problem is the lack of an effort to find a job. Hence, the responsibility for unemployment is shifted to the victim - the unemployed person. In terms of the need for full employment - as a condition of market equilibrium, employment is assumed to involve the utilization of all factors of production, not just labor. Consequently, unemployment and the underutilization of resources are the most obvious manifestations of the poor functioning of markets (Stiglitz, 2010); however the state is responsible for the functioning of the market. Also, another fact that is being ignored is that a more dynamic society and an economy with an appropriate level of social welfare protection provide greater satisfaction to all participants in the economic process, i.e. employees, customers and even employers.

For an economy to be successful, appropriate institutions are needed since they are crucial for economic growth and development. The goal and the purpose of economic institutions are to serve both individuals and the society as a whole in an effort to instigate economic growth and development and secure the welfare of citizens. The market itself is one of these institutions. Numerous formal and informal rules regulate the successful functioning of the market. The history of the most developed market economies shows that neither the market nor the state can be considered as the only possible or universal coordination mechanism. Real conditions and needs of each particular economy determine the adequate form of the interaction between the state and the market. With this in mind, it is unacceptable that developing countries, which „accept recommendations" of the IMF in order to overcome their respective structural and other developmental problems, are not allowed to use the same protectionist measures that have been implemented in developed countries, and are also often used today, and thanks to which these developed countries have achieved such a level of development.

According to different experiences concerning the functioning and the reform of the economic system and the creation of economic policies, it should be noted that there are countries that have refused to adopt strict neoliberal policies; however, they have managed to achieve remarkable results. This makes a solid ground for the review of the neoliberal economic concept. In contrast with the devastating effects of free trade in all economies where this concept has been implemented, a completely opposite result is achieved in China, where the economic activity is carried out in conditions of a gradual reform and traditional mercantilist policies. The mentioned experiences and other similar ones are valuable lessons in formulating a vision of social and economic systems, which should take into account the objective circumstances in the country. They are also relevant for the planning of an adequate long-term strategy of social and economic development, which includes a higher level of economic development as well as any other form of equality.

IMPLICATIONS OF (IN)EQUALITY FOR THE ECONOMY

The attitude towards the issues of economic (in)equality is usually discussed in the context of efficiency as one of the main goals of both the economic system and its economic actors. In this respect, it is understood that, in order to deal with the trend of economic inequality, the government needs to implement appropriate policies of redistribution in order to reduce inequality created by the action of the market forces and represents one of the indicators of a market failure. The development, drafting and implementation of such policies include discussions and *pro et contra* opinions on economic equality and economic inequality, as well as an analysis of their effects in terms of economic growth and development.

Critics of income redistribution, which is in the function of achieving greater equality, stress that its costs are too high (Stiglitz, 2012). They argue that the redistribution of income affects a reduction in the economic growth rate for the following two reasons:

- the redistribution of income is implemented through progressive taxation, which negatively affects incentives and results in a decrease in investments and reduced working efforts; and
- social groups with higher incomes are more prone to saving compared to the low income groups; therefore, the effect of redistribution is also reflected in lower savings rates and, consequently, a decline in investment and economic growth rates.

On the other hand, the literature suggests that income inequality has a negative effect on economic growth. First of all, unequal income distribution may lead to greater pressures on the policy of redistribution through distortionary taxes, which leads to lower growth. Also, inequality can cause social and political instability, which negatively affects the willingness of owners of capital to invest in such conditions, causing a reduced economic dynamism and, consequently, lower economic growth. After all, the feeling that economic and political systems are unfair is the main driver of world-wide protests, such as *Occupy Wall Street*. The main cause of such occurrences is the contemporary neo-liberal economic system that is not only inefficient and unstable, but thoroughly unfair as well.

The social structures that support the current level of inequality argue that there is no need for any measures aimed at its rectification to be taken because they believe that the success of capitalism rests on inequality and, as such, inequality is an important feature of capitalism. It is pointed out that those working hard should be adequately rewarded in order to be motivated to implement new investments that would bring benefits for all people.

According to these views, it is necessary that we should point out that some forms of inequality are really necessary and inevitable. In fact, some people work harder and are more productive than others; therefore, any economic system striving to function properly should reward those people for their efforts. This implies the efforts of all factors of production, both the capital and the labor ones, which should be adequately rewarded in terms of the distribution of income. However, when not all factors of production are valued in the same way, when not all variables - production, revenues, profits, earnings, capital, stock prices, rents - progress at the same pace in order to make it possible for each social group to proportionately benefit from a particular economic activity, rising inequality enters the scene and makes a great problem, which is not only of a humanitarian nature, but also causes an economic decline, argues J. E. Stiglitz (2010). Accordingly, the concept of trade-off between efficiency and equality, i.e. distribution, which is a part of welfare economics, has been developed for a reason.

The problem of economic inequality is that, due to its origin, its magnitude can undermine economic growth and jeopardize its efficiency. One of the reasons lying behind numerous forms of inequality could be found in the market imbalances aimed at creating new wealth at the expense of others. It is not surprising that the growth of the US economy was more intense in the periods marked by lower inequality, says J. E. Stiglitz (2012). The economic inequality that has been on the rise since the 1980s has not led to increased growth; quite the opposite, it has made the majority of the population face the fact that their incomes are unstable and prone to stagnation. During this period of increasing inequality, growth has been slower compared to the past few decades. At the same time, the economic system has led to a situation where the rich have become richer and the poor have become poorer, increasing in numbers at the same time. Simultaneously, middle-class incomes have stagnated or declined, for which reason the gap between the middle class and the wealthiest people has constantly been growing. In light of unfavorable economic trends, J. E. Stiglitz (2010) believes that it is necessary that a way to create high-paying middle-class jobs should be found since the middle-class, as the backbone of the state and the society, has started to disappear with the weakening of the industrial base.

Economic reality has shown that a success of an economy can primarily be estimated on the grounds of the living standard of the majority of citizens over a longer period of time. In this sense, an economy cannot be considered as successful in the circumstances where the growth of the GDP *per capita* has been recorded; however, at the same time, full-time employees' wages have fallen and inequality has been on the rise. Also, jobs security is worsening and, in the conditions of high unemployment and low levels of social welfare protection, the living conditions are deteriorating. A special aspect of inequality is rising unemployment, and the economy has in its hands something that is extremely important for human welfare: a job (Krugman, 2012). Accordingly, it is necessary that the fact that the economy is socially oriented and socially responsible should be taken into account; hence, placing itself in the service of man is its natural imperative. Therefore, every economy requires a greater degree of economic equality (certainly not egalitarianism) and a developed social welfare protection system as a postulate that the work and innovation potential of every individual, regardless of their socio-economic status, will be realized in the best possible way. In other words, a greater degree of economic equality is not in stark conflict with economic efficiency, which confirms the main hypothesis of this paper.

CONCLUSION

After a long period of neglect, socio-economic reality, characterized by rising economic inequality, motivated an intensified theoretical and empirical research related to the problems of economic inequality and its implications for the functioning of modern economies at the beginning of the 1990s. The majority of these studies conclude that economic systems are paying a high price due to the escalation of inequality since it undermines their stability and efficiency and thus significantly slows economic growth. This is brutally confirmed by the global economic crisis. Rising economic inequality has a negative impact not only on the economy but also on the stability of society and the political environment. Economic and political inequality, which both function according to the principle of communicating vessels, are associated with deficiencies in the institutional environment that enable the distribution of income and power to individuals and interest groups associated with the government structures, thereby increasing inequality and diversifying its forms going beyond the economic ones.

The present income and wealth distribution supports the need for reaching various compromises between equality and economic efficiency, which is also common knowledge in economic science and economic and political practice. Also, the policy of social justice proved to be an adequate concept since, due to its economic and social values, it provides a greater chance for an economic success. Greater economic equality decreases possibilities of conflict, establishes greater trust and allows a better functioning of institutions, which in turn supports investments and the efficient functioning of the economy and hence, dynamic economic growth rates. In this respect, there is a need for the presentation and analysis of different positions concerning both economic equality and inequality and a search for an economic model that would establish a balance between: private and public interests; capital and labor; economic efficiency and social justice; the self-regulating mechanism of the market and regulatory and corrective actions of the state. Therefore, this type of research should not only be limited to this paper. A confirmation of the value of such a model of the economic system can be found in quite an unusual and unexpected answer by Sweden's Minister of Finance (just to mention that Sweden is one of the most developed and the most egalitarian countries) regarding the foundation of Sweden's success: „We have high tax rates" (according to J. E. Stiglitz, 2010).

The contribution of this paper can be seen in the critical analysis of the different factors that produce economic inequality, both inequality which is socially and economically justified and acceptable and the escalation of inequality that significantly affects the functioning of the modern economy and is one of the limitations for achieving dynamic economic growth and sustainable development. On the other hand, a greater degree of economic equality contributes to greater stability in society, the establishment of economic and political institutions based on the rule of law, whereby their functioning is supportive for most of the population in terms of investment and innovation, as well as the motivation of economic actors for a more inventive and more productive working environment. Hence, greater equality in the long-term period is an important factor of economic efficiency, the realization of the dynamic economic growth rates and the sustainability of development, which is another confirmation of the hypothesis set in this paper.

The paper analyzes some of the key aspects of economic inequality and its causes and implications for the economic system by using the qualitative economic analysis and its methodological instruments, especially by contrasting different, theoretically and empirically verified positions. However, one of the key limitations to this research is found in the fact that the author's research of (in)equality in the Republic of Serbia is still in progress and by no means complete. The comprehensive and complex examination of (in) equality in the Republic of Serbia will be the subject of a future research.

ACKNOWLEDGMENTS

This paper is a part of the research Project (No. 179015), which is funded by the Ministry of Education, Science and Technological Development of the Republic of Serbia.

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Received on 23th July 2015,
after revision,
accepted for publication on 17th August 2015.

Published online on 25th August 2015

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